

What is Backtesting?

The general idea of a backtest is to analyse stock prices in the past, usually with software, and hypothetically firing trades based on a certain trading strategy.

Example

For example, let's say your trading strategy is to buy Amazon when it falls 3% in a day, your backtest software will check Amazon's prices in the past and fire a trade when it fell 3% in a day.

The backtest results will show if the trades were profitable.

Software

Backtesting can be as simple as running analysis in Excel to something more complex such as creating custom backtesting software.

In fact, the lectures on Volatility Pairs Trading are a simple form of backtesting:

<https://course.algotrading101.com/courses/pt101-practical-python-for-finance-trading-masterclass/lectures/24486539>

We will use the Backtrader library (Python) for our backtesting needs in this course.

More info on Backtrader: <https://algotrading101.com/learn/backtrader-for-backtesting/>